



FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

(UNAUDITED)

Notice Under National Instrument 81-106 (para 2.12): Management has compiled the unaudited interim financial information of PrimeWest Mortgage Investment Corporation consisting of the Balance Sheet as at June 30, 2010, the Statement of Earnings and Retained Earnings, the Statement of Changes in Net Assets, the Statement of Cash Flow and the Statement of Investment Portfolio for the six months ended June 30, 2010. All Amounts are in Canadian Dollars. The independent external auditor, Hergott Duval Stack LLP Chartered Accountants, has not performed a review of these financials for the six months ended June 30, 2010.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

FOR THE SIX MONTHS ENDED JUNE 30, 2010

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2010
(unaudited)

	<u>June 30</u> <u>2010</u>	<u>June 30</u> <u>2009</u>	<u>December 31</u> <u>2009</u> (audited)
<u>ASSETS</u>			
Cash held in trust (Note 4)	\$ 432,877	\$ 150,548	\$ 479,805
Loan receivable (Note 5)	24,750	24,750	24,750
Prepaid expenses	6,244	6,174	10,694
Mortgages receivable (Note 6)	22,302,876	15,853,278	18,323,977
Property, plant and equipment (Note 7)	24,837	20,791	25,380
Assets taken in settlement of debt	238,599	-	223,858
Deferred share issuance costs	-	-	16,782
	<u>\$ 23,030,183</u>	<u>\$ 16,055,541</u>	<u>\$ 19,105,246</u>
<u>LIABILITIES</u>			
Bank indebtedness (Note 8)	\$ 3,214,429	\$ 4,635,260	\$ 3,406,258
Accounts payable and accrued liabilities	54,353	31,993	108,794
Dividends payable	-	235,649	-
Loans payable	-	-	1,500,000
Trust fund liability (Note 9)	432,877	150,548	479,805
Convertible debentures	-	9,667	-
	<u>3,701,659</u>	<u>5,063,117</u>	<u>5,494,857</u>
Commitments and Contingencies (Note 10)			
<u>SHAREHOLDERS' EQUITY</u>			
Share capital (Note 11)	19,274,493	11,084,920	13,580,440
Contributed surplus	-	333	-
Retained earnings	54,031	(92,829)	29,949
	<u>19,328,524</u>	<u>10,992,424</u>	<u>13,610,389</u>
	<u>\$ 23,030,183</u>	<u>\$ 16,055,541</u>	<u>\$ 19,105,246</u>

Approved by the Board

Director: "Thomas Archibald"

Director: "Douglas Frondall"

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

	<u>June 30</u> <u>2010</u>	<u>June 30</u> <u>2009</u>
Income		
Mortgage interest	\$ 906,089	\$ 736,986
Fees	576,027	225,395
Interest on short-term investments	15,055	5,895
	<u>1,497,171</u>	<u>968,276</u>
Interest and fees expense		
Interest expense	67,656	136,148
Broker and agent fees	162,832	110,519
	<u>230,488</u>	<u>246,667</u>
Net interest and fees income	1,266,683	721,609
Provision for mortgage losses (Note 6)	78,168	(1,361)
Net interest and fees income after provision for mortgage losses	1,188,515	722,970
Other income	4,042	(7,806)
Net interest, fees and other income	<u>1,192,557</u>	<u>715,164</u>
Expenses		
Advertising and promotion	57,539	36,665
Amortization	9,366	6,749
Contracted services	11,502	43,462
Directors' fees	23,700	24,900
Insurance	6,758	5,523
Office and administration	60,090	45,269
Professional fees	38,967	34,823
Rent	24,946	20,806
Wages and employee benefits	197,320	167,033
	<u>430,188</u>	<u>385,230</u>
Net income	762,369	329,934
Retained earnings, beginning of period	29,949	40,571
Dividends	(737,263)	(443,514)
Excess of redemption value of shares over stated capital	(1,024)	(19,820)
	<u>54,031</u>	<u>(92,829)</u>
Retained earnings, end of period	<u>\$ 54,031</u>	<u>\$ (92,829)</u>
Basic earnings per share (Note 12)	<u>\$ 0.42</u>	<u>\$ 0.31</u>
Diluted earnings per share (Note 12)	<u>\$ 0.42</u>	<u>\$ 0.33</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

	<u>June 30 2010</u>	<u>June 30 2009</u>
Net assets, beginning of period	\$ 13,610,389	\$ 9,384,436
Increase in net assets from operations	762,369	329,934
Share capital transactions		
Proceeds from issuance of shares	6,008,140	1,199,200
Shares issued on debenture conversion	-	728,000
Share issuance costs charged to share capital	(301,111)	(98,339)
Cost of shares redeemed	(14,000)	(83,050)
Equity component of convertible debentures	-	(24,243)
	<u>5,693,029</u>	<u>1,721,568</u>
Distributions to shareholders		
Dividend to shareholders	<u>(737,263)</u>	<u>(443,514)</u>
Net assets, end of period	\$ <u><u>19,328,524</u></u>	\$ <u><u>10,992,424</u></u>

(see accompanying notes)



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

	<u>June 30</u> <u>2010</u>	<u>June 30</u> <u>2009</u>
Cash flows from operating activities		
Net Income	\$ 762,369	\$ 329,934
Items not affecting cash		
Amortization	9,366	6,750
Loss on disposal of property, plant and equipment	-	7,806
Provision for mortgage losses	(20,266)	(1,477)
Net changes in non-cash working capital items related to operations:		
Cash held in trust	46,928	9,844
Prepaid expenses	4,450	22,707
Assets taken in settlement of debt	(14,741)	-
Accounts payable	(54,441)	(75,965)
Dividends payable	-	235,649
Trust fund liability	(46,928)	(9,844)
	<u>686,737</u>	<u>525,404</u>
Cash flows from investing activities		
Mortgages receivable	(3,958,633)	(1,071,423)
Purchase of property, plant and equipment	(8,823)	(6,600)
Proceeds on disposal of property, plant and equipment	-	4,700
Increase in loans receivable	-	48,250
	<u>(3,967,456)</u>	<u>(1,025,073)</u>
Cash flows from financing activities		
Proceeds from loan	-	-
Repayment of loan	(1,500,000)	-
Dividends paid	(737,263)	(443,514)
Proceeds from issuance of shares	6,008,140	1,199,200
Redemption of shares	(14,000)	(83,050)
Deferred share issuance costs	16,782	-
Share issuance costs charged to share capital	(301,111)	(98,339)
	<u>3,472,548</u>	<u>574,297</u>
Net increase (decrease) in cash during the period	191,829	74,628
Cash, beginning of period	(3,406,258)	(4,709,888)
Cash, end of period	\$ (3,214,429)	\$ (4,635,260)
Supplementary cash flow information		
Interest paid	\$ 67,989	\$ 123,301
Income taxes paid	-	-

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

	<u>Principal Value</u>	<u>Amortized Cost</u>	<u>Current Value</u>
Mortgages	\$ 22,165,907	\$ 22,165,907	\$ 22,302,876
Net assets			\$ 240,077
Operating line of credit			\$ (3,214,429)
Net assets			\$ 19,328,524

Distribution of mortgages

Mortgages are 96% residential, 4% commercial	<u>Interest Rates %</u>	<u>Number of Mortgages</u>	<u>Amortized Cost</u>	<u>Current Value</u>
All mortgages are pre- payable, uninsured, conventional mortgages, with terms to maturity of up to two years	6 - 7	1	\$ 160,652	\$ 160,652
	7 - 8	9	1,758,390	1,758,390
	8 - 9	15	3,429,483	3,429,483
	9 - 10	15	3,120,845	3,120,845
	10 - 11	32	6,588,672	6,588,672
	11 - 12	30	6,785,540	6,785,540
	12 - 13	4	317,750	317,750
	13 - 14	2	100,212	100,212
	14 - 15	1	107,215	107,215
Add, accrued interest receivable			-	136,969
Less, allowance for mortgage losses (Note 6)			(202,852)	(202,852)
		109	\$ 22,165,907	\$ 22,302,876

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

1. Description of business

PrimeWest Mortgage Investment Corporation (the "Company") was incorporated under The Business Corporations Act of Saskatchewan on March 22, 2005 and commenced operations in October 2005. The Company operates as a Mortgage Investment Corporation as defined in the Income Tax Act.

These interim condensed financial statements include the accounts of the Company; however, they do not include all disclosures normally provided in annual audited financial statements and should be read in conjunction with the 2009 annual audited financial statements. In management's opinion, the unaudited financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements have been prepared to reflect the following significant accounting policies:

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amount of revenues and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates, which are subject to measurement uncertainty, include the determination of mortgage impairment, the allowance for mortgage losses, and the determination of mortgage fair value.

Share issue costs

Share issue costs include legal and accounting fees and brokerage commissions. These costs are charged against share capital in the year of share issuance. Costs incurred for shares that have not been issued at year end are deferred until such time as the related shares are issued.

Revenue recognition

Interest revenue on mortgages and other investments is recognized on the accrual basis in the period earned. Interest is not accrued on mortgages that are identified as impaired. Other fees, including mortgage fees, are recognized as income as services are provided.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

2. Significant accounting policies (continued)

Assets taken as settlement of debt

Assets taken as settlement of debt are recorded at the lower of cost and net realizable value. Cost is determined as the value of the loan outstanding at the time the asset was taken in settlement, including any costs related to settlement, and any direct carrying costs.

Mortgages receivable

Mortgages receivable are initially measured at fair value plus incremental direct transaction costs. Mortgages receivable are subsequently re-measured at their amortized cost, net of allowance for credit losses, using the effective interest method.

A mortgage receivable is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment is assessed monthly, on a mortgage-by-mortgage basis and specific allowances are recorded if management determines that the mortgage receivable is impaired.

When a mortgage receivable is classified as impaired, accrual of interest on the receivable ceases and the carrying amount of the receivable is reduced to its estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the receivable. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the receivable is reduced to its estimated net realizable value based on the fair value of any security underlying the receivable, net of expected costs of realization.

As long as the receivable remains classified as impaired, payments received will be credited to the carrying value of the receivable. A mortgage receivable will be returned to accrual status only when the timely collection of both principal and interest is reasonably assured and all arrears payments of principal and interest are brought current.

Allowance for mortgage losses

The Company maintains general and specific allowances for mortgage losses which, in management's opinion, are adequate to absorb all mortgage related losses in its portfolio. The Company records allowances for mortgage losses to reduce mortgage receivable carrying values to their estimated realizable amounts. A general allowance has been established at 0.50% of the carrying value of the outstanding mortgages receivable balance. Specific provisions against specific mortgage exposures are determined on a mortgage-by-mortgage basis.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

2. Significant accounting policies (continued)

Basic and dilutive earnings per share

Basic net earnings per share are computed by dividing net earnings for the period by the weighted average number of shares outstanding during the period.

Diluted net earnings per share are computed similarly to basic net earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed conversion of the convertible debentures, if dilutive, and net earnings are adjusted to remove any interest paid to the holders of the convertible debentures. The number of additional shares is calculated by assuming that the outstanding convertible debentures were exercised at the earlier of issue date and the beginning of the fiscal period, and that the proceeds from such conversions were used to acquire shares at the average market price during the period.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized over three years using the straight-line method.

Income taxes

The Company is a Mortgage Investment Corporation as defined in the Income Tax Act. As such, the Company is not taxable on income which flows through to shareholders in the form of dividends paid within 90 days of the Company's fiscal year end. It is the Company's policy to always flow income earned out to shareholders in the form of dividends. It is therefore unlikely that the Company will ever pay corporate income tax.

Recently issued standards

International Financial Reporting Standards

The CICA will transition Canadian Generally Accepted Accounting Principles for publicly accountable entities to International Financial Reporting Standards (IFRS). For the Company, this will take place over a transition year ending with its 2011 year end.

The Company is carrying out a project to identify and evaluate the impact of the transition to IFRS on its financial statements and develop a plan to complete the transition. This plan includes the following phases; diagnostics, design and planning, implementation and training.

The impact of the transition to IFRS on the Company's financial statements is not yet determinable.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

3. Capital structure financial policies

The Company's objectives when managing capital are to (i) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders. The Company is required to have at all times approximately 10% of its total assets in cash or near cash securities in order to meet redemption requests and thereby provide an element of liquidity to the investor.

The Company's definition of capital includes shareholders' equity, long-term debt, cash and temporary investments and securitized accounts receivable. Capital is monitored for any of these items if applicable.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and issue new debt to replace existing debt.

The Company monitors capital using the following measures:

	<u>2010</u>	<u>2009</u>
Net interest and fees income after provision for mortgage losses	\$ 1,240,677	\$ 722,970
Net interest margin	82.9%	74.7%
Dividend payout ratio	96.7%	134.4%
Net assets	\$ 19,328,524	\$ 10,992,424
Net available cash		
As a percentage of net assets	33.1%	39.7%
Net debt to net income	5	15
Debt to capital ratio	19.2%	43.9%
Average portfolio yield	15.8%	14.6%
Turnover ratio	31.5%	16.9%

During the period, the Company's strategy was unchanged from the prior period.

4. Cash held in trust

These trust amounts represent a portion of mortgage funds held back for the purposes of making monthly payments on the related outstanding mortgage receivable (see Note 9). During the period, the Company acted as a joint account holder for these funds. This use of this trust cash is restricted for use to pay down the related mortgage receivable and cannot be used in the operations of the company.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

5. Loans receivable

The loans receivable relate to a loan to one (2009 - one) past director to acquire shares of the Company. This loan is non-interest bearing, due on demand and is secured by Company shares held in trust. On demand, this loan bears interest at prime plus 2%. This program has been discontinued.

6. Mortgages receivable

	<u>2010</u>	<u>2009</u>
Portfolio of 109 (2009 - 97) mortgages bearing interest at fixed rates from 6.95% to 14.5%, maturities ranging from July 2010 to June 2012, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 22,368,759	15,915,505
Accrued interest receivable	136,969	97,749
Allowance for mortgage losses		
General	(107,852)	(73,726)
Specific	(95,000)	(86,250)
Balance, end of year	\$ <u>22,302,876</u>	\$ <u>15,853,278</u>

Maturities and yields:	Within	3 months	1 year to		
	<u>3 months</u>	<u>to 1 year</u>	<u>2 years</u>	<u>2010</u>	<u>2009</u>
Total loans	\$ 8,917,490	\$ 8,502,486	\$ 4,948,783	\$ 22,368,759	\$ 15,915,505

Average effective yield 15.4% 15.7% 16.4% 15.7% 14.7%

Average yields are based on book values and contractual interest rates, adjusted for application and other fees.

Allowance for mortgage losses	<u>June 30, 2010</u>			<u>June 30, 2009</u>		
	Total	Specific	General	Total	Specific	General
	<u>Allowance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Allowance</u>
	\$ 202,852	\$ 95,000	\$ 107,852	\$ 159,976	\$ 86,250	\$ 73,726

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

7. Property, plant and equipment

	<u>2010</u>			<u>2009</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 46,322	\$ 27,797	\$ 18,525	\$ 10,301
Furniture and equipment	15,197	8,885	6,312	10,490
	<u>\$ 61,519</u>	<u>\$ 36,682</u>	<u>\$ 24,837</u>	<u>\$ 20,791</u>

8. Bank indebtedness

Bank indebtedness consists of an operating line of credit net of cash on hand. The margined, demand operating line of credit bears interest at the greater of 4.25% and prime plus 2.0%, has an authorized limit which is the lesser of the margin calculation and \$12,500,000 and is secured by a general security agreement and an assignment of mortgage debentures. The operating line's margin is calculated using variable percentages of eligible mortgages as set out by the bank. At period end, the maximum margin available was \$9,612,688 (2009 - \$7,610,853).

	<u>2010</u>	<u>2009</u>
Line of credit	\$ 3,264,178	\$ 4,687,724
Less cash on hand	(524)	(500)
Less deferred financing charges	<u>(49,225)</u>	<u>(51,964)</u>
	<u>\$ 3,214,429</u>	<u>\$ 4,635,260</u>

Deferred financing charges consist of bank and legal fees related to the setup of the banking agreement. These costs are being amortized over five years using the straight-line method.

9. Trust fund liability

The trust fund liability represents a portion of the mortgage proceeds that have been held back on certain mortgages to fund the monthly payments on these mortgages (see Note 4). During the period, the Company acted as a joint account holder for these funds.

10. Commitments and contingencies

As at period end, the Company was committed to funding ten (2009 - three) mortgages, for a total of \$2,103,450 (2009 - \$1,902,950).

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

11. Share capital

Authorized an unlimited number of:

Class A voting, common shares, redeemable at the option of the Company and retractable at the option of the holder at \$10 per share. If the shareholder requests redemption within the first year of issuance, a redemption penalty of 3% will apply, unless waived by the Board of Directors. The Company is only required to redeem 30% of the issued and outstanding shares per year.

Class B common shares may, at any time, or from time to time, be issued in one or more series. The Board of Directors, subject to certain limitations, shall determine the number of shares to be issued and the designation, rights, privileges, restrictions and conditions attached to those shares.

Issued and outstanding	2010		2009	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the year	1,465,932	\$ 13,580,440	1,011,550	\$ 9,319,289
Issued during the year				
New shares issued	600,814	6,008,140	119,920	1,199,200
Shares issued on debenture conversion	-	-	72,800	728,000
Redemptions during the year	(1,400)	(14,000)	(8,305)	(83,050)
Excess of redemption value over book value		1,024		19,820
Share issue costs		(301,111)		(98,339)
Balance Class A shares at year end	<u>2,065,346</u>	<u>\$ 19,274,493</u>	<u>1,195,965</u>	<u>\$ 11,084,920</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$20,653,460 (2009 - \$11,959,650). Class A shares represent the residual equity interest of the Company, the redemption feature applies to all the Class A shares, the shares have no preferential rights and the redemption event is the same for all the Class A shares and accordingly are recorded as equity in accordance with Emerging Issues Committee Abstract 149.

12. Basic and diluted earnings per share

Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period. The shares issued in the period were issued throughout the fiscal period, resulting in a weighted average number of shares outstanding in the period of 1,809,179 (2009 – 1,061,265), with the total number of shares outstanding at period end of 2,065,346 (2008 – 1,195,965).

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

12. Basic and diluted earnings per share (continued)

	<u>2010</u>	<u>2009</u>
Basic earnings per share		
Net income available to shareholders	\$ 762,369	\$ 329,934
Weighted average number of common shares	1,809,179	1,061,265
Basic earnings per share	\$ 0.42	\$ 0.31
Diluted earnings per share		
Net income available to shareholders	\$ 762,369	\$ 329,934
Add back interest on convertible debentures	-	21,249
Total adjusted net income available to shareholders	<u>\$ 762,369</u>	<u>\$ 351,183</u>
Weighted average number of common shares	1,809,179	1,061,265
Add incremental shares from assumed conversions	-	1,000
Dilutive potential common shares	<u>1,809,179</u>	<u>1,062,265</u>
Diluted earnings per share	\$ 0.42	\$ 0.33

At June 30, 2010, there are no convertible debentures outstanding.

13. Related party transactions

The Company incurred \$23,700 (2009 - \$24,900) of directors' fees, which were paid in full during the period.

These transactions are in the normal course of operations and are measured at the exchange amount, which approximates fair value and is the amount of consideration established and agreed to by the related parties.

14. Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity ("HTM"), and available-for-sale ("AFS") financial assets that do not have quoted market prices in an active market. The Company has designated its financial instruments as follows:

Financial assets are classified as loans and receivables and held-for-trading. Cash and cash equivalents are accounted for at fair value. Loans and receivables include all receivables and are accounted for at amortized cost.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)

14. Financial instruments (continued)

Financial liabilities are classified as other liabilities and are accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized.

	June 30, 2010		June 30, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash held in trust	\$ 432,877	\$ 432,877	\$ 150,548	\$ 150,548
Loans and receivables				
Loans receivable	24,750	24,750	24,750	24,750
Mortgages receivable	22,302,876	22,302,876	15,853,278	15,853,278
Other financial liabilities				
Bank indebtedness	3,214,429	3,214,429	4,635,260	4,635,260
Accounts payable	54,353	54,353	31,993	31,993
Dividends payable	-	-	235,649	235,649
Trust fund liability	432,877	432,877	150,548	150,548
Convertible debentures	-	-	9,667	9,667

Comprehensive income

The Company does not have any items that require separate recognition outside of net income.

Credit risk

The Company is exposed to credit risk due to the possibility of mortgagors being unable to fulfill their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor.

Fair values

The fair values of the other accounts receivable, accounts payable, term deposits, and the trust fund liability approximate their carrying value due to the short-term nature of these instruments. The fair value of the mortgages receivable is considered to be the amortized cost, net of allowance for credit losses, using the effective interest method.

Interest rate price risk

The Company is subject to interest rate price risk on the spread between its bank indebtedness and mortgage portfolio, or net interest income. Interest rate price risk on the bank indebtedness issued at variable rates expose the Company to cash flow interest rate risk. Interest rate price risk on the mortgage portfolio arises from the possibility that at the end of a mortgage's term it will be re-priced to a prevailing interest rate lower than the original one.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(unaudited)**

14. Financial instruments (continued)

This risk is mitigated by the fact that the Company is not as exposed to market mortgage rates because there is no specific market for mortgages of similar type, term and credit risk. This has allowed the Company to renew its mortgages at a discount from market rates.

The short-term maturities of the mortgage portfolio allow the Company to manage the interest rate price risk on the spread. Mortgages are issued with either one or two year terms, have fixed interest rates and can be paid in full without penalty. The weighted average interest rate of the mortgages as at period end was 10.3% (2009 – 10.25%).

The Company considers interest rate risk related to cash and cash equivalents to be low because of their short-term nature.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed circumstances. The Company maintains significant committed borrowing facilities from its bank for credit room at least equal to ten percent of the line of credit plus two months operating costs.

15. Income taxes

The Company has non-capital loss carryforwards for income tax purposes of \$596,759 which will expire as follows:

2015	\$17,966
2026	7,219
2027	51,128
2028	304,022
2029	216,424

In addition, the Company has financing costs of \$569,924 which will be deductible for tax purposes over the next four years. The potential benefit of these loss carryforwards and undeducted financing costs has not been recognized in these financial statements.